Susan Strange argues that changes in the international economy have altered the relationship between states and multinational corporations and have given rise to new forms of diplomacy in the international arena. Highlighting the crucial importance of international economic factors, Strange points out how such worldwide trends as technological development, the growing mobility of capital, and the decreasing costs of communication and transportation have led increasing numbers of firms to plan their activities on a global basis. This has increased competition among states as they encourage firms to locate within their territories. The international economic environment within which all states operate has been fundamentally transformed, and governments are being forced to adapt to this new reality.

… Three propositions will be advanced here. First, that many seemingly unrelated developments in world politics and world business have common roots and are the result in large part of the same structural changes in the world economy and society. Second, that partly in consequence of these same structural changes, there has been a fundamental change in the nature of diplomacy. Governments must now bargain not only with other governments, but also with firms or enterprises, while firms now bargain both with governments and with one another. As a corollary of this, the nature of the competition between states has changed, so that macroeconomic management and industrial policies may often be as or even more important for governments than conventional foreign policies as conventionally conceived. The third proposition follows from the second, and concerns the significance of firms as actors influencing the future course of transnational relations—not least for the study of international relations and political economy.

**STRUCTURAL CHANGE**

Most commentators on international affairs have in our opinion paid far too little attention to structural change, particularly to change in the structure of production in the world economy. Our recent work argues that most of the recent changes in world politics, however unrelated they may seem on the surface, can be traced back in large part to certain common roots in the global political economy. We see common driving forces of structural change behind the liberation of Central
Europe, the disintegration of the former Soviet Union, the intractable payments deficit of the United States, the Japanese surpluses, the rapid rise of the East Asian newly industrialized countries, and the U-turns of many developing country governments from military or authoritarian government to democracy, and from protection and import substitution towards open borders and export promotion.

These common driving forces of change, in brief, are the accelerating rate and cost of technological change, which has speeded up in its turn the internationalization of production and the dispersion of manufacturing industry to newly industrialized countries; increased capital mobility, which has made this dispersion of industry easier and speedier; and those changes in the structure of knowledge that have made transnational communications cheap and fast and have raised people’s awareness of the potential for material betterment in a market economy. These common roots have resulted, at the same time and in many countries, in the demand for democratic government and for the economic flexibility that is impossible in a command economy….

Technological Change, Mobile Capital, Transborder Communications

Most obvious of the structural changes acting as the driving force on firms and governments alike were those in the technology of industrial and agricultural production; related to them were changes in the international financial structure. The accelerating pace of technological change has enhanced the capacity of successful producers to supply the market with new products, and/or to make them with new materials or new processes. At the same time, product and process lifetimes have shortened, sometimes dramatically. Meanwhile, the costs to the firm of investment in R&D, research and development—and therefore of innovation—have risen. The result is that all sorts of firms that were until recently comfortably ensconced in their home markets have been forced, whether they like it or not, to seek additional markets abroad in order to gain the profits necessary to amortize their investments in time to stay up with the competition when the next technological advance comes along. It used to be thought that internationalism was the preserve of the large, privately owned Western “multinational” or transnational corporations. Today, thanks to the imperatives of structural change, these have been joined by many smaller firms, and also by state-owned enterprises and firms based in developing countries. Thus it is not the phenomenon of the transnational corporation that is new, but the changed balance between firms working only for a local or domestic market, and those working for a global market and in part producing in countries other than their original home base.

Besides the accelerating rate of technological change, two other critical developments contributed to the rapid internationalization of production. One was the liberalization of international finance, beginning perhaps with the innovation of Eurocurrency dealing and lending in the 1960s, and continuing unchecked with the measures of financial deregulation initiated by the United States in the mid-1970s and early 1980s. As barriers went down, the mobility of capital went up. The old difficulties of raising money for investment in offshore operations
and moving it across the exchanges vanished. It was either unnecessary for the transnational corporations to find new funds, or they could do so locally.

The third contributing factor to internationalization has often been over-looked—the steady and cumulative lowering of the real costs of transborder transport and communication. Without them, central strategic planning of far-flung affiliates would have been riskier and more difficult, and out-sourcing of components as in car manufacture would have been hampered.

Broader Perspectives

These structural changes have permeated beyond finance and production to affect global politics at a deep level. They have, for instance, significantly affected North-South relations. The so-called Third World no longer exists as a coalition of developing countries ranged, as in UNCTAD (the UN Conference on Trade and Development), in opposition to the rich countries. Developing countries are now acutely aware that they are competing against each other, the laggards desperately trying to catch up with the successful newly industrialized countries. The transnational corporations’ search for new markets was often a major factor leading them to set up production within those markets. Sometimes this was done for cost reasons. Other times it was done simply because the host government made it a condition of entry. The internationalization of production by the multinationals has surely been a major factor in the accelerated industrialization of developing countries since the 1950s. For it is not only the Asian newly industrialized countries whose manufacturing capacity has expanded enormously in the last two or three decades, but also countries like India, Brazil, Turkey and Thailand.

At the same time, the internationalization of production has also played a major part in the U-turn taken in economic policies by political leaders in countries as diverse and far apart as Turkey and Burma, Thailand and Argentina, India and Australia. Structural change, exploited more readily by some than others, has altered the perception of policy-makers in poor countries both about the nature of the system and the opportunities it opens to them for the present and the future. In the space of a decade, there has been a striking shift away from policies of import-substitution and protection towards export promotion, liberalization and privatization.

It is no accident that the “dependency school” writers of the 1970s have lost so much of their audience. Not only in Latin America (where most of this writing was focused), we see politicians and professors who were almost unanimous in the 1970s in castigating the multinationals as agents of American imperialism who now acknowledge them as potential allies in earning the foreign exchange badly needed for further development.

Nor, we would argue, is the end of the Cold War, the détente in East-West relations and the liberation of Central Europe from Soviet rule and military occupation to be explained by politics or personalities alone. Here too there are ways in which structural change has acted, both at the level of government and the bureaucracy, and at the popular level of consumers and workers.

In the production structure, even in the centrally planned economies, industrialization has raised living standards from the levels of the 1930s and 1940s,
at least for the privileged classes of society. Material progress has not been as fast as in the market economy, but in the socialist countries as in Latin America or Asia, the ranks have multiplied of a middle class of managers, professional doctors, lawyers, engineers and bureaucrats, many of whom are significantly better educated than their parents. With this *embourgeoisement* has come greater awareness of what is going on in other countries, and of the widening gap between living standards in the affluent West and their own.

In the world market economy, competition among producers has lowered costs to consumers and widened their choice of goods, while raising their real incomes. Under the pressures of shortening product life cycles, heavier capital costs and new advances in technologies, rivalry among producers has unquestionably contributed to material wealth for the state as well as for consumers. Witness the spread down through income groups of cars, colour TVs, washing machines, freezers, video recorders, telephones, personal computers. In any Western home, a high proportion of these consumer goods carries the brand names of foreign firms.

By contrast, the Soviet consumer has suffered the deprivation consequent on the economy’s insulation from the fast-changing global financial and production structures. But the information about what others enjoyed in the West could not altogether be kept from people even in the Soviet Union, let alone in Central Europe. The revolution in communications, and thus in the whole global knowledge structure, helped to reveal the widening gap between standards of living for similar social groups under global capitalism and under socialism.

At the same time, the new bourgeoisie, aware of the inefficiencies of the command economy, saw that economic change was being blocked by the entrenched apparatus of centralized government and could only be achieved through political change and wider participation. While the burden of defence spending certainly played a part in both East and West in furthering détente and making possible the liberation of Central Europe, political change was accelerated within the socialist countries by the rise of a new middle class and their perception of the gap in living standards and of the apparent inability of centrally planned systems to respond to the structural change in technologies of production.

We would argue that similar structural forces also lie behind the worldwide trend to democratic government and the rejection of military and authoritarian rule. In short, people have become better off and better educated and are making their material dissatisfaction and their political aspirations strongly felt. We would argue that this wave of political change has the same universal roots, whether in Greece, Portugal or Spain, in Turkey, or in Burma, Brazil, or Argentina….

**TWO NEW SIDES TO DIPLOMACY**

**State-Firm Diplomacy**

The net result of these structural changes is that there now is greatly intensified competition among states for world market shares. That competition is forcing states to bargain with foreign firms to locate their operations within the territory of the state, and with national firms not to leave home, at least not entirely….
The transnational firm has command of an arsenal of economic weapons that are badly needed by any state wishing to win world market shares. The firm has, first, command of technology; second, ready access to global sources of capital; third, ready access to major markets in America, Europe and, often, Japan. If wealth for the state, as for the firm, can be gained only by selling on world markets—for the same reason that national markets are too small a source of profit for survival—then foreign policy should now begin to take second place to industrial policy; or perhaps, more broadly, to the successful management of society and the efficient administration of the economy in such a way as to outbid other states as the preferred home to the transnational firms most likely to win and hold world market shares.

While the bargaining assets of the firm are specific to the enterprise, the bargaining assets of the state are specific to the territory it rules over. The enterprise can operate in that territory—even if it just sells goods or services to people living there—only by permission and on the terms laid down by the government. Yet it is the firm that is adding value to the labour, materials and know-how going into the product. States are therefore competing with other states to get the value-added done in their territory and not elsewhere. That is the basis of the bargain.

Firm-Firm Diplomacy

A third dimension, equally the product of the structural changes noted earlier, is the bargaining that goes on between firms. This too may lead to partnerships or alliances in which, while they may be temporary or permanent, each side contributes something that the other needs, so that both may enhance their chances of success in the competition for world market shares. Firms involved in this third dimension of diplomacy may be operating in the same sector (as in aircraft design, development, and manufacturing) or in different sectors (where, for instance, one party may be contributing its expertise in computer electronics, the other in satellite communications).

For scholars of international relations, both new dimensions are important. The significance of the state-firm dimension is that states are now competing more for the means to create wealth within their territory than for power over more territory. Power, especially military capability, used to be a means to wealth. Now it is more the other way around. Wealth is the means to power—not just military power, but the popular or electoral support that will keep present ruling groups in their jobs. Without this kind of support, even the largest nuclear arsenals may be of little avail. Nowadays, except perhaps for oilfields and water resources, there is little material gain to be found in the control of more territory. As Singapore and Hong Kong have shown, world market shares—and the resulting wealth—can be won with the very minimum of territory. Even where, as in Yugoslavia or the Soviet Union, there is a recurrence of conflict over territory, the forces behind it are not solely ethnic nationalism of the old kind. Many Slovenes, Croats, Russians or Georgians want to wrest control over their territory from the central power because they believe they would be able to compete better in the world economy
on their own than under the control of their old federal bosses. Autonomy is seen as a necessary condition for economic transformation and progress.

Successfully Managing Society and Economy

Having got control over territory, government policy-makers may understand well enough what is needed to bargain successfully with foreign firms to locate with them. But they may not always be able to deliver. For though the forces of structural change affect everyone, even the old centrally planned economies, the capacity of governments to respond are extremely diverse.

... The diversity of government responses to structural change usually reflects the policy dilemmas peculiar to the government of that society. But precisely because of increased integration in the world market economy, it is more and more difficult for governments to “ring-fence” a particular policy so that implementing it does not directly conflict with, perhaps negate, some other policy....

Contemplation of the diversity of host-country policies in monetary management, trade and competition policy very soon brings home the fact that there are no shortcuts and no magic tricks in wooing foreign firms. However, some general advice is still possible. One piece of advice is obviously to pinpoint the policy dilemmas where objectives clash. Another is to cut out the administrative delays and inefficiencies that bedevil the work of local managers.... Another good piece of advice, already stressed in the growing literature on the management of international business, is to break up monopolies and enforce competition among producers....

... The diversity of government responses...is surely due not only to mulish stupidity or ignorance of the keys to success. Governments are, after all, political systems for the reconciliation of conflicting economic and social, and sometimes ethnic, interests. Moreover, the global structural changes that affect them all do so very differently, sometimes putting snakes, sometimes ladders in their path. Some small boats caught by a freak low tide in an estuary may escape grounding on the mud by alert and skillful management; others may be saved by luck. Our research suggests that the crucial difference between states these days is not, as the political scientists used to think, that between “strong” states and “weak” ones, but between the sleepy and the shrewd. States today have to be alert, adaptable to external change, quick to note what other states are up to. The name of the game, for governments just as for firms, is competition.

FIRMS AS DIPLOMATS

Our third general point—the importance of firms as major actors in the world system—will be obvious enough to leaders of finance and industry. They will not need reminding that markets may be moved, governments blown off course and balances of power upset by the big oil firms, by the handful of grain dealers, by major chemical or pharmaceutical makers. It will come as no surprise to them
that the game of diplomacy these days has two extra new dimensions as well as the conventional one between governments.

But while I have scratched the surface of one of these—the bargaining between firms and governments—I have not said much about the third, bargaining between firms. This deserves to be the subject of a whole new research programme. Examples have recently multiplied of firms which were and may remain competitors but which under the pressures of structural change have decided to make strategic or even just tactical alliances with other firms in their own or a related sector of business. In the study of international relations it is accepted as normal that states should ally themselves with others while remaining competitors, so that the bargaining that takes place between allies is extremely tough about who takes key decisions, how risks are managed and how benefits are shared.

The implications for international relations analysis of the three-sided nature of diplomacy are far-reaching. The assertion that firms are major actors is at odds with the conventions of international relations as presently taught in most British universities and polytechnics. The standard texts in the subject subscribe to the dominant “realist” school of thought, which holds that the central issue in international society is war between territorial states, and the prime problematic therefore is the maintenance of order in the relations between these states. This traditional view of international relations also holds that the object of study is the behaviour of states towards other states, and the outcome of such behaviour for states: whether they are better or worse off, less or more powerful or secure. Transnational corporations may be mentioned in passing, but they are seen as adjuncts to or instruments of state policy.

Our contention is that transnational corporations should now be put centre stage; that their corporate strategies in choosing host countries as partners are already having great influence on the development of the global political economy, and will continue increasingly to do so. In common with many contemporary political economists, our interest is not confined to the behaviour of states or the outcomes for states. Who-gets-what questions must also now be asked—about social groups, generations, genders, and not least, about firms and the sectors in which they operate. Ten years from now we anticipate that the conventions and limitations of what has sometimes been called the British school of international relations will be regarded as impossibly dated, its perceptions as démodé as 1950s fashions. This is not to say, of course, that there are no lessons to be learned by economic ministries and corporate executives from the diplomatic history of interstate relations. Only that the study of international relations must move with the times, or be marginalized as a narrow specialism….

To sum up. Much more analytical work is needed on firm-firm bargaining as well as on state-firm bargaining in all its multivariant forms. It needs recognizing that both types of bargaining are interdependent with developments in state-state bargaining (the stock in trade of international relations), and that this in turn is interdependent with the other two forms of transnational diplomacy. In the discipline of management studies, corporate diplomacy is becoming at least as important a subject as analysis of individual firms and their corporate strategies for finance, production and marketing. In the study of international relations, an interest in
bargaining is already beginning to supplant the still-fashionable analysis of international regimes.

A focus on bargaining, and the interdependence of the three sides of diplomacy that together constitute transnational bargaining, will necessarily prove more flexible and better able to keep up with change in global structures. No bargain is forever, and this is generally well understood by anyone with hands-on experience of negotiation. The political art for corporate executives, as for government diplomats, is to devise bargains that will hold as long as possible, bargains that will not easily be upset by changes in other bargaining relationships. This is true for political coalitions between parties, or between governments and social groups, such as labour; and it is equally true for bargains between governments and foreign firms, and between firms and other firms. The multiplicity of variables in the pattern of any one player’s interlocking series of bargains is self-evident.

A final point about the interlocking outcomes of transnational bargaining relates to theories of international relations and political economy. Social scientists like to think that the accumulation of more and more data, the perfecting of analytical tools and their rigorous application according to scientific principles will some day, somehow, produce a general theory to explain political and economic behaviour. They are a bit like peasants who still believe there is a pot of gold buried at the end of the rainbow despite their repeated failures to track it down. Today, the complexity of the factors involved in each of the three forms of transnational bargaining, and the multiplicity of variables at play, incline us to deep scepticism about general theories. Not only are economics—pace the economists—inseparable from the real world of power and politics, but outcomes in the global political economy, the product of this complex interplay of bargains, are subject to the great divergences that we have observed.